



TEL EPISODE #032:

The Risk-Driven Business Model with Serguei Netessine

Show Notes: <http://www.theelpodcast.com/tel-032-risk-driven-business-model-serguei-netessine/>

Welcome to The Entrepreneurs Library, the only book-centric podcast that reviews all the top-selling business books and shares author's perspective, firsthand. This is your resource to finding the next great book that will enable you to grow personally and professionally. Welcome your host, Wade Danielson.

WADE: Thank you for joining us on The EL. Today we have Serguei Netessine, co-author of *The Risk-Driven Business Model*. Welcome, Serguei, and thank you for joining us on The Entrepreneurs Library.

SERGUEI: Thank you, Wade, for having me.

WADE: Absolutely. Will you take just a second and give us a little bit of background on you personally?

SERGUEI: Well, I was born in Russia. At some point, I started my studies there, worked there, moved to the United States to do business, and got my first job at the Wharton School, University of Pennsylvania. I was a faculty there for about 10 years and then moved to INSEAD, another top business school. First I worked in France and now in Singapore. So I've worked with companies and with startups on multiple continents.

WADE: Perfect. Thank you for sharing that. Now let's jump right into your book, *The Risk-Driven Business Model*, which was made available for purchase on July 8th, 2014. Serguei, we're going to move quickly, but here are some of the top questions that our readers/listeners would love to get answered.

The first one is, what was the inspiration behind your book, *The Risk-Driven Business Model*?

SERGUEI: Well Wade, the key inspiration was that while reading many, many books that are out there on innovation, my co-author Karan and I noticed that all

of those books tend to focus on a particular type of innovation, which is about creating new products, creating new technologies, finding new market niches, and that's typically the kind of innovation that comes to mind when people say "innovation."

WADE: Okay, great. What would you say makes your book different from others regarding the same topic?

SERGUEI: Our book is on the topic of business model innovation, which is I would say a less traditional type of innovation, which doesn't really create new products or technologies, but basically reinvents the way product or service is delivered to the market. Our book in particular is different because we believe, at least, that this is a more actionable book. We were aiming to create a roadmap for someone to create new business models rather than simply describing new business models that exist out there.

WADE: Excellent. How would you suggest that the reader engage with your book? Is this the kind of book that they can dive into from beginning and read straight through to the end, or is this one that they should use as a resource and jump in and out as they need?

SERGUEI: I hope that the book is interesting enough so that you start reading it and you cannot stop. At least I see our book as a book which is full of cases. Unlike normal innovation books which cover maybe two, three companies – Apple, always, and Google – we have numerous case studies, probably three or four dozen. So I hope it's an interesting read which can be done in one sitting.

WADE: Okay, excellent. Serguei, we're at my favorite part of the entire interview, and that's where I'm just basically going to give the mic completely to you and let you take us through your creation, take us through your book and let us know exactly what it's all about.

SERGUEI: Let me try to do that in the limited time that I have. Our book begins with the introduction, where we basically talk about the fact that business model innovation is often an overlooked way to innovate. We introduce this topic and



we talk about how a lot of value can be created through business model innovation. And really, it's a very, very attractive way to innovate, because unlike normal innovation through new products and technologies, it does not require huge R&D expenditures.

In the second chapter we move on and we explain our approach to business model innovation. It's very different from inventing new products and technologies. Typically, new products and technologies start with identifying some kind of a market need. Business model innovation is different in that there is already a need and there is already a product which addresses that need, so what you need to do is to find inefficiencies in the existing markets.

We describe two basic types of inefficiencies that you might identify. We call it information inefficiency and alignment inefficiency, and we talk about how through the process of business model innovation one can go about identifying those inefficiencies and fixing them.

The rest of the book really outlines our four different approaches, what we call four *Ws*, which can be used to invent new business models. In the third chapter, we talk about *What* innovation. *What* innovation is essentially an innovation about changing the kind of decisions that the company makes within its business model. I'll give you just one example: Diapers.com is a very interesting startup company which at some point decided to focus just on a very narrow segment, basically baby consumables, rather than selling everything, like say an Amazon might do.

In the fourth chapter, we talk about *When* innovations. *When* innovations are all about changing the timing of your decisions. You can change timing of your decisions, for example, by moving your decisions around relative to when you obtain information to make those decisions. I'll give you just one example: a company called LiveOps – it's a startup out of San Francisco – instead of hiring people as a normal call center would do, LiveOps is a different kind of call center. It hires people on demand. When the calls come in, it forwards its calls to home-based agents who connect through the internet. So you can ramp up your capacity very, very quickly on a 1-minute notice.

The next chapter talks about what we call a Who innovation, which changes who makes decisions in the business model. As an example there, I can use Google, which allows its own employees to decide what projects to work on; Google leaves 20% of an employee's time completely free to work on projects which the employee deems interesting. Google believes that the employees are the best people who are in the best position to figure out what to work on.

In the next chapter, we talk about Why innovation, where in the business model, you can change why people make the decision. A good example here could be a company like TerraPass, which is a startup which came out of one of the first classes that we taught on the topic of business model innovation and which changed how people go about cleaning after their cars. Essentially, TerraPass would sell those annual subscriptions where for \$100, you would buy kind of an indulgence, and the company would reduce carbon emissions in the world by the amount that your car would emit.

These are the key four chapters which talk about four different approaches to business model innovation. Then we go into basically an action chapter which discusses how TerraPass went about innovating its business model. The chapter is kind of an action chapter describing how ideas for TerraPass were generated, how they were selected, how the company was developed, etc., etc. It's a nice illustrative chapter talking about the nitty-gritty details of the innovation process.

And finally, we conclude with a call for action. We basically say that look, the time has come to really change the discipline of business model innovation to make it into a systematic process which is governed by certain rules and which allows entrepreneurs not to just focus on creating new products, creating new technologies, but also looking for new business models out there.

Just to summarize our entire book, our book is really designed to address two different audiences. One big audience is entrepreneurs, of course, because a lot of innovation – probably most of innovation – comes from entrepreneurs. And also our book addresses a different audience, which is intrapreneurs, so people

who try to innovate within existing companies, trying to change business models of existing companies.

So the book is full of examples for both of those audiences, about half and half. Half of the examples are startups, and I mentioned mostly startups in my description of the book, but of course, we have a lot of examples of established companies changing their business models. And some of those companies are not even for-profit companies; we also talk about not-for-profit companies, we talk about government examples, for example, etc., etc.

What we believe and what we try to demonstrate in the book is that the discipline of business model innovation has a very, very wide applicability, and very often business model innovation works well in situations when other types of innovations don't work very well. Say if you take a very traditional industry, you take an industry like oil and gas or something like that, where it's not entirely clear how to innovate new products and technologies – business model innovation works in this context.

So that's basically the entire book in a 7, 8 minute summary, Wade.

WADE: That was excellent. Serguei, you went through a ton of different information that's going to bring a great deal of value to the reader, and that's why this next question is fairly difficult. Out of your entire book, what would you suggest would be the one takeaway, the one principle or action item, if that's all that they could get out of it?

SERGUEI: It's difficult, of course, Wade, to bring out just one quote, one example. But I'll focus on the quote that is probably familiar to most listeners. The quote is very simple: "We believe that one of Steve Jobs' greatest innovations was not necessarily an iPhone or iPad; it was actually the singular business model of the iTunes Store." The reason is that the business model of the iTunes Store actually makes all of the other innovations of Apple work. That's an often overlooked fact about Apple and about Steve Jobs.

WADE: Excellent. Do you have a favorite quote from your book that you guys wrote together? Or even one that maybe your audience has pulled out as their favorite?

SERGUEI: That's very difficult to pinpoint one particular quote that might be a good one. I'll take one, which is maybe in parallel to Apple's observations that I made earlier, which is a quote about Thomas Edison. Everybody knows that Thomas Edison invented the light bulb, but what many people often forget is that Thomas Edison also invented the business model for generating electrical power, transmitting heat and metering heat and purchasing heat.

So that's my favorite quote that we shouldn't forget about the power of the business model, which very often offers a much more sustainable innovation than innovations from new products or technologies.

WADE: Okay, very good. Is there a book that you can recommend to our listeners? And we're looking for a book that's impacted your life, one that's maybe created a paradigm shift that helped you move forward.

SERGUEI: There are, of course, a few books that I could mention. Very difficult to select one. I'll mention probably the book *Lean Startup* by Eric Ries, which is a fascinating book which completely changes – and I think it changed the paradigm of thinking about startup business and approaching startup business through what I would call a discovery-driven planning process. I highly recommend this book to anyone working on the subject of innovation, especially to entrepreneurs.

WADE: Yeah, that's a very good book. That's a great recommendation. Serguei, before we depart, can you recommend the best way for our listeners to get more information on you and even Karan, your co-author, and then also on your book, *The Risk-Driven Business Model*?

SERGUEI: Most certainly, Wade. The simplest way would be to go to our website, defineyourcompany.com. Very simple website to remember. Again, defineyourcompany.com. We have a link there, for example, to our blog, where we collected hundreds of examples of business model innovation. An interested



reader can certainly find an example for his or her favorite industry, for example. You can also find more information about us, information about the reviews of the book, etc., etc. You can even watch a short video which explains the book in 2 minutes.

WADE: Very good. Serguei, thank you so much for your time today. This was extremely valuable.

SERGUEI: Thank you, Wade, for having me. Thank you for this opportunity.

WADE: Thanks again for listening in today. If there is a book you would love to hear reviewed by the author, please visit us on iTunes and leave us a review with the book title. If you would like to get your hands on The Risk-Driven Business Model or any of the other resources mentioned by Serguei, just look at the show notes at TheELPodcast.com.

Looking for your next book idea? Head over to TheELPodcast.com, where Wade shares his amazing resource, "The Top 10 Business Books Recommended by Over 500 Entrepreneurs," with you for free. That's TheELPodcast.com. Till the next time, keep it on the EL.

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